NATIONAL BISCUIT COMPANY Annual Report 1969

CORPORATE STRENGTHS

NATIONAL BISCUIT COMPANY

425 Park Avenue, New York, N.Y. 10022

ANNUAL REPORT 1969

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TRANSFER AGENTS

Morgan Guaranty Trust Company, 30 West Broadway, New York, N.Y. 10015
Continental Illinois National Bank & Trust Company of Chicago
231 South LaSalle Street, Chicago, Ill. 60690
Crocker-Citizens National Bank, 1 Montgomery Street, San Francisco, Calif. 94120

REGISTRARS

First National City Bank, 55 Wall Street, New York, N.Y. 10015
The First National Bank of Chicago, 38 South Dearborn Street, Chicago, Ill. 60690
Bank of America, 1 South Van Ness Avenue, San Francisco, Calif. 94120

DEBENTURE TRUSTEES

Bankers Trust Company, 16 Wall Street, New York, N.Y. 10015
Morgan Guaranty Trust Company, 23 Wall Street, New York, N.Y. 10015

ANNUAL MEETING

The annual meeting of shareholders will be held at 2:00 p.m. on Monday, April 27, 1970, at the Commodore Hotel in New York City. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders at least 30 days in advance of the meeting.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Lawrence A. Appley*
Chairman of the Board, American Management Association, New York

Lee S. Bickmore*
Chairman and Chief Executive Officer

Berford Brittain, Jr.*
Former Senior Vice President, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.

Nile E. Cave*
Senior Vice President

Jess H. Davis*
President, Stevens Institute of Technology, Hoboken, N. J.

Val B. Diehl*
Executive Vice President

Harrison F. Dunning
Chairman and Chief Executive Officer, Scott Paper Company, Philadelphia, Pa.

Charles W. Lubin
Food Consultant and Investor, Chicago, Ill.

Don G. Mitchell*
Chairman, Executive Committee, American Management Association, New York

William H. Moore
Chairman of the Board, Bankers Trust New York Corporation and Bankers Trust Company, New York

Robert M. Schaeberle*
President

Carrol M. Shanks
Partner—Shanks, Davis & Remer, Attorneys, New York

Perry M. Shoemaker
Transportation Consultant, Tampa, Fla.

James O. Welch
Trustee and Director of various corporations, Boston, Mass.

**Member of the Executive Committee*

OFFICERS

Lee S. Bickmore, *Chairman of the Board*
Robert M. Schaeberle, *President*
Val B. Diehl, *Executive Vice President*
Nile E. Cave, *Senior Vice President*
C. Eugene Lair, *Senior Vice President*
Edward A. Otocka, *Senior Vice President*
Charles S. Webster, *Senior Vice President*
Farish A. Jenkins
Senior Vice President, Corporate Marketing

Vice Presidents

David F. Bull
Vice President, Special Products Division

Ralph W. Jones
Vice President, Biscuit Division

Roy K. Kelley
Vice President, Special Assignments

William E. MacKay
Vice President and General Counsel

John B. McGovern
Vice President, Personnel Relations

Frank K. Montgomery, Jr.
Vice President, Corporate Planning

Edwin F. Mundy
Vice President, Traffic

Carl R. Pilz
Vice President, Purchasing

Theodore G. Richter
Vice President, International Division

Warren J. Robertson
Vice President, Finance

Harry F. Schroeter
Vice President, Communications

Howard W. Wilson
Vice President, New Products

Robert S. Gruchacz
Controller

Kenneth M. Hatcher
Secretary and Treasurer

FINANCIAL HIGHLIGHTS

	1969	1968
Net sales	$726,200,000	$770,100,000
Income from operations	67,500,000	90,500,000
Net income	30,800,000	41,800,000
Net income per dollar of sales	4.2 cents	5.4 cents
Net income per common share	2.27	3.07
Dividends declared per common share	2.20	2.10
Common dividends declared	29,900,000	28,500,000
Earnings retained	900,000	13,300,000
Plant and equipment additions	31,900,000	38,200,000
Working capital	117,800,000	134,100,000

To Nabisco Shareholders

NABISCO's net sales for 1969 totaled $726.2 million, compared with the record high of $770.1 million in 1968. Earnings totaled $30.8 million, or $2.27 per share of common stock, down from $41.8 million or $3.07 per share in the previous year.

The 1969 results were affected by a nation-wide strike on the part of production workers which closed 13 of our major bakeries from September 6 to November 3. The Company resisted initial union contract demands because we believed that they were inflationary and would put us at a severe disadvantage in the highly competitive biscuit marketplace. A fair and equitable settlement was finally achieved.

Thanks to the excellent relationships we enjoy with our grocery-store customers, retail-store shelf space was generally made available when operations were resumed in November. Consumer demand for NABISCO products has proved so continuous and at such a high level, we have had difficulty in building stocks not only in our branches but on grocers' shelves as well. Company sales in the month of December were the best for that month in our history.

We now look forward to 1970 with confidence. Consumer incomes should rise with the reduction in the income-tax surcharge and the increase in Social Security payments. Unemployment continues low. Salaries and wages trend upward. We detect no weakness in sales out of grocery stores or in consumer packaged products in general. The year 1970 should be a good one for quality products like those that bear NABISCO's trademark.

In 1969, a number of significant factors were highly encouraging. In January, the Board of Directors increased the dividend to an annual rate of $2.20. This was the 11th consecutive year that dividend payments to our shareholders were raised.

New Snack Foods

Our major domestic product lines continued their strong competitive position. Several innovations in new product and packaging development hold considerable promise. New entries in the fast-growing snack food market are going well. We have also extended existing product lines with popular new tastes and flavors.

Both our Special Products and Candy Divisions were able to improve their positions in the market during the year. The Special Products Division continued to expand its established varieties and the development work on new items which show excellent potential. Our new cereal plant at Naperville, Illinois was completed during 1969 and production is growing steadily, with an increase in operating efficiency. The Candy Division successfully extended some of its new items and continued the distribution of new packs in grocery stores and supermarkets.

On the international scene, the steady growth of NABISCO operations outside the United States continued. In September, a new biscuit and cracker bakery was opened near Milan, Italy by Saiwa, S.p.A., our affiliate in that country. The finest plant of its kind in Europe, the new bakery adds considerable productive capacity and flexibility in supplying the European Common Market.

Another major activity of affiliated NABISCO companies abroad is improving their distribution facilities and efficiency. New sales and delivery branches were opened in England, Germany, Italy, Mexico, Spain and Venezuela during the last year.

Our Canadian companies had an excellent year. A new biscuit and cracker plant addition is under construction in Montreal. New product introductions in Canada were highly successful in 1969, especially one of our newest snack items, Potato MINI-CHIPS.

In December, NABISCO announced negotiations to further extend its overseas interest. An agreement in principle was reached to form an association with XOX Biskuitfabrik, GmbH, a major West German biscuit company. On the other side of the world, NABISCO agreed, subject to government approval, to establish a joint venture in Japan to market biscuits, chocolate and candy. The Yamazaki Baking Co., Ltd., and the Nichimen Co., an export-import firm, are the other partners of the venture, to be known as Yamazaki-Nabisco Co., Ltd. Both of these affiliations provide NABISCO with excellent growth opportunities in markets which are prosperous and expanding.

National concern about nutrition was expressed in the December White House Conference on Food, Nutrition and Health, in which National Biscuit Company participated. The nutritional merits of crackers, cookies and cereals have long been recognized. Early in 1969, NABISCO further enhanced these values by producing its PREMIUM Saltine Crackers with enriched flour. PREMIUM Saltines are the world's largest selling cracker and are frequently used as a bread substitute. We are investigating other opportunities to further improve the nutritional values of other NABISCO products which are consumed in large volume. During November, NABISCO was awarded a contract by the U.S. Government's Agency for International Development to conduct nutritional deficiency studies in Nicaragua and Venezuela. The project will seek to determine the feasibility of producing high-protein baked goods at NABISCO plants located in those countries.

Future Management Source

There were approximately 37,000 people employed worldwide at the end of 1969. As the Company continues to expand, the demand for qualified, competent people increases. We believe firmly that current employees are our best source of future management essential for planned, continued growth. Accordingly, we continue to provide the training and experience necessary to qualify them for positions of increasing responsibility.

During the year, a number of executive changes took place which are detailed later in this report. Here, we would like to note the retirement in October of William H. Colvin, a member of the Board of Directors since 1952. A former steel company executive, Mr. Colvin was the senior member of the Board and we will miss his experience and counsel.

Lee S. Bickmore

Lee S. Bickmore, *Chairman*

R. M. Schaeberle

Robert M. Schaeberle, *President*

February 6, 1970

MARKETING

Marketing is a management approach dedicating total company efforts to determining and satisfying the needs and wants of consumers and distributors by offering quality products at fair prices. In this manner, a company builds a permanent image of value for its brands and trademarks.

NABISCO's marketing relies on tests, experience and counsel from many sources, technical and creative, internal and external, in developing careful plans for supporting established products or handling new ones. Consumer research is the beginning and consumer purchase—and re-purchase—the objective. Here, we can touch on only a few aspects of NABISCO's proven marketing skills.

"Franchise" Varieties

PREMIUM Saltines, RITZ Crackers, OREO Creme Sandwich, Sugar HONEY MAID Grahams, NABISCO Shredded Wheat and CREAM OF WHEAT Cereals rank high with consumers and grocers alike. We call such prominent brands our "franchise" varieties—required items in every grocery store and in millions of homes. Marketing strategy is directed toward building other brand-name varieties to similar strong positions through consistent advertising and promotion and always by maintaining and improving product quality. "Franchise" items influence consumers to rely on the NABISCO trademark in the upper left-hand corner of each package wherever they shop.

As NABISCO expands around the globe, our associate biscuit companies introduce these famous crackers, adding to their already locally popular lines of cookies. In this way, we use the marketing concept to add new strengths overseas. As international sponsored-television advertising develops, we expect NABISCO brands to be represented, for they are becoming popular favorites in more and more countries.

Packaging Innovations

Packaging innovations contribute to marketing leadership. Currently the NABISCO exclusive "EASY-LOCK" closure, first tested successfully on TRISCUIT Wafers, is being applied to our dominant snack-cracker line. Also, a distinctive new "dew-drop" design, illustrated on the preceding page, will identify NABISCO immediately to shoppers for cellophane-wrapped cookies, often indistinguishable on supermarket shelves. Constant improvements in package construction and graphic designs are being brought about overseas as well.

A major factor in NABISCO's success is direct delivery of merchandise. Over 3,500 salesmen call on grocery stores throughout the country. Orders are delivered, usually within two days, by our own trucks working out of over 200 branch warehouses. Shelves are filled and stocks rotated. Consumers are assured of fresh merchandise and storekeepers benefit from fast turnover. Indeed, NABISCO's trusted relationship with the grocery trade is a major asset. Similar principles of distribution are being adapted whenever indicated overseas. All our experience indicates that such distribution systems provide a sure basis for market growth.

Quality and Convenience

Consumers everywhere want change today, demanding high quality, new convenience and new products. All around the world, "snacks" are in growing demand. NABISCO's snack-cracker line, long an American institution, is now being successfully introduced in Europe and elsewhere. Non-baked items are also being well received. CHIPSTERS Potato Snacks is one of these. Others are undergoing various tests to

determine their popularity here and abroad. They open up new markets without significantly affecting demand for crackers and cookies. In addition, we have added new varieties to product lines which have been established earlier. Among these are new flavors of SNACK MATE Pasteurized Cheese Spreads, TOASTETTES Toaster Pastries, and Mix 'n Eat CREAM OF WHEAT cereal.

Advertising Essential

Effective advertising is essential to marketing success. Through sponsorship of such nationally famous family television programs as "Wonderful World of Disney," millions of families, children and adults, are told of NABISCO crackers, cookies, snacks and cereals. Appetizing color advertisements in trusted magazines promote many NABISCO products and often feature recipes from NABISCO's test kitchens. Always we stress NABISCO's quality and value, the theme of NABISCO displays and merchandising promotions in grocery stores, large and small. Similar advertising programs, adapted to each country, are spreading the story of NABISCO leadership throughout the world.

In the world-wide marketing picture, NABISCO is benefiting more and more from its multi-national operations. Products, packaging, promotions and advertising developed on one continent prove useful on another.

OPERATIONS

National Biscuit Company has long been proud of its record of plant operating efficiency. We know that increased productivity is a major contribution to profit margins and return on investment in today's food business with its emphasis on mass production, mass distribution and mass retailing. A well-run production plant is one of the best ways of coping with rising costs.

Total capital expenditures in 1969 were $31.9 million. Completion of the new Saiwa, S.p.A., plant near Milan, Italy, gives us the finest cracker and cookie bakery in Europe. Work is underway on a large addition to the Christie, Brown & Co., Ltd., bakery in Montreal, which will greatly expand plant capacity and permit the increased production necessary to meet a steadily climbing demand.

Plant Improvements

Additional plant-improvement projects are constantly carried out in most of our other domestic plants and in facilities overseas. They include the provision of more production and warehouse space, the installation of new or improved machinery, materials-handling procedures and equipment, and new data-processing equipment. All of these undertakings are aimed at the improvement of operating efficiency and the resultant reduction of costs.

Technological development has reached a high level of achievement in the food industry and NABISCO has been a leader in pioneering these advances in the field of commercial baking. The Company has maintained a continuous investment in mechanical improvement and

development work, designing its own modern plants to take full advantage of the changes in baking processes and equipment. NABISCO plants operate largely with major items of equipment and machines, which have been developed and built by the Company.

The department of mechanical development at the Company's research center at Fair Lawn, N.J. is the source of major equipment development. Here, a staff of engineers studies all types of baking equipment with particular concentration on production and packaging machinery. After ideas are perfected and tested at Fair Lawn, commercial models are constructed at the Company's machine shop at Evanston, Illinois. Then they are installed on regular production lines at NABISCO plants. Annual output at Evanston may range from 300-foot band ovens to a special, four-inch drive gear.

Quality Control

The advantages of such an equipment program are numerous. NABISCO's production volume is by far the largest in our industry and the necessary equipment is not always readily available on the open market. Other benefits include consistency of performance and equipment familiarity for plant operating personnel. Another major gain is the maintenance of high standards of quality control which are critical throughout the production process. Experience has shown that we can meet these standards with greater accuracy by using equipment of our own design.

Two of NABISCO's strongest assets are its flour milling and printing and carton operations which produce most of these important materials. Three flour mills located in Ohio, Missouri and Washington supply almost 100 per cent of our total U.S. flour requirements. Two carton and printing plants, in New York and Illinois, furnish the bulk of our boxboard and printed cartons, a staggering total of more than one and one-quarter billion cartons a year.

Milling to our own flour specifications enables NABISCO to achieve a quality consistency which would not be possible if we were to meet requirements only from a number of commercial suppliers. Costs are also a key consideration and our mill investment is sound financially.

The same advantages of cost and quality control accrue to our printing and carton operations. A new six-color printing press of the most advanced design is presently being installed at the Beacon, N.Y. plant, which will expand printing capabilities and cost savings.

Executive Changes

A number of executive changes took place during 1969.

Warren J. Robertson was elected Vice President—Finance on February 24. He had previously served as Director of Finance.

Ralph W. Jones was elected Vice President—Biscuit Division on June 23 to succeed Cecil C. Garey, retired.

John B. McGovern was elected Vice President—Personnel Relations on December 22. He had served as Director of Personnel for the past year.

John J. Toomey, Vice President—Operations and Development, retired October 1. He was succeeded by Robert L. Sanford who was named General Manager, Operations and Development.

Frank J. Gurgone, Vice President—Corporate Development, retired November 1. J. Stewart English was appointed Director of Corporate Development to succeed Mr. Gurgone.

FINANCE

NABISCO's financial strength derives from its ability to manage resources so as to provide an above-average return on shareholders' investment over an extended period of time. As mentioned elsewhere, the labor disruption caused 1969 to be an unrepresentative year for sales, profit and other financial criteria.

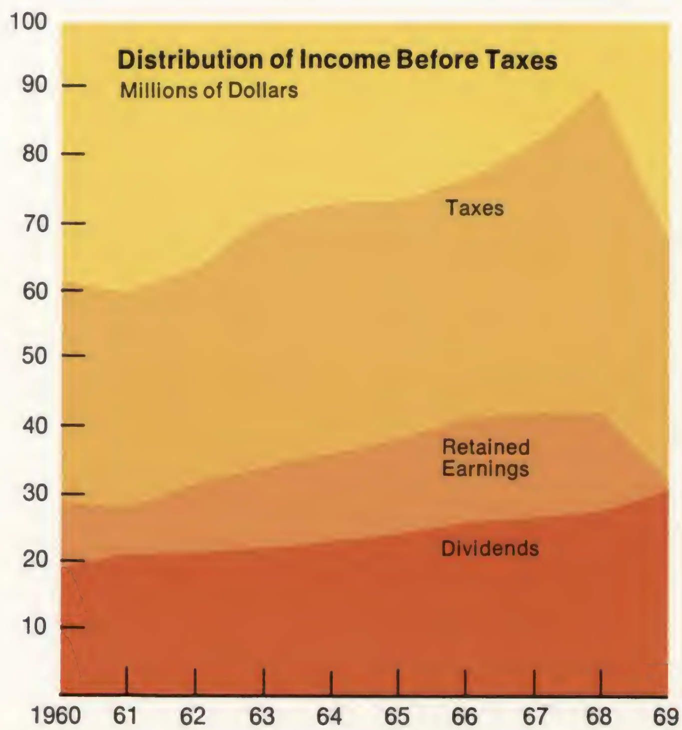
This fundamental strength, demonstrated over a period of years, has generated resources which have enabled the Company to pursue a generous dividend policy, to provide equitable salary and wage rates for employees, and to supply needed capital for reinvestment in the business to permit continued growth. This has been accomplished while maintaining fair and competitive prices and producing top quality products.

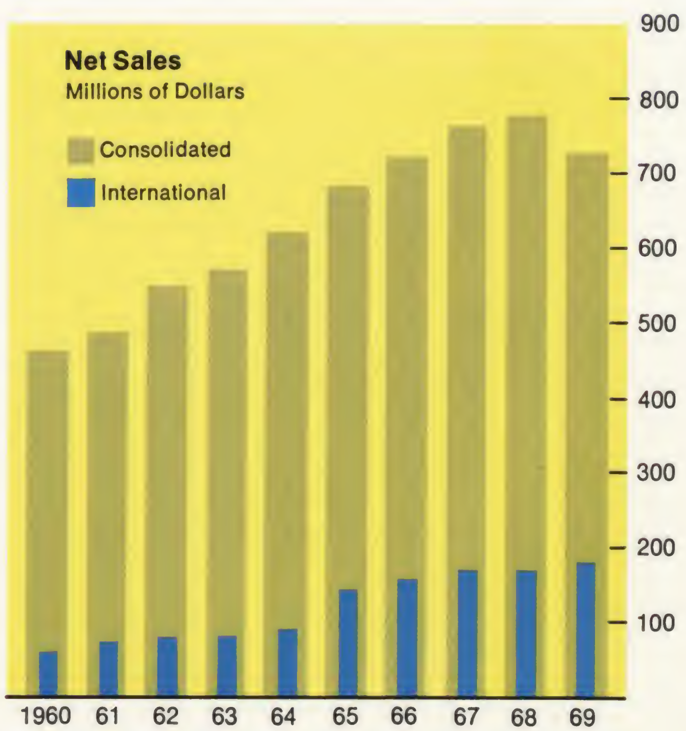
Management's extensive use of advanced financial planning and control procedures in operating NABISCO around the world insures that Company resources are allocated so as to optimize profitability and financial soundness.

Supplementing internally generated financial resources with overseas borrowing during 1967 and 1968 allowed the Company to continue its planned growth without interruption and on favorable terms. This use of debt permitted the continuation of planned long-range programs while complying with U.S. balance of payments restrictions.

NABISCO's ambitious plans for future growth and expansion must, of necessity, be supported by a well-managed financial structure.

The Company's willingness to invest in the future is illustrated in a number of areas. As we expand around the world, the Company's financial resources enable us to provide the most modern and efficient facilities available. These expenditures exceeded $100 million in the last three years, an amount higher than in any previous comparable period. Major new bakeries in Italy and Australia are providing NABISCO





with the capability to add to its world-wide leadership in baked goods. Similarly, a sizable addition to our Canadian biscuit and cracker production facilities will enable us to meet expanding demand in that country. A major new cereal plant in Naperville, Illinois enhances the Company's ability to compete in the important cereal market.

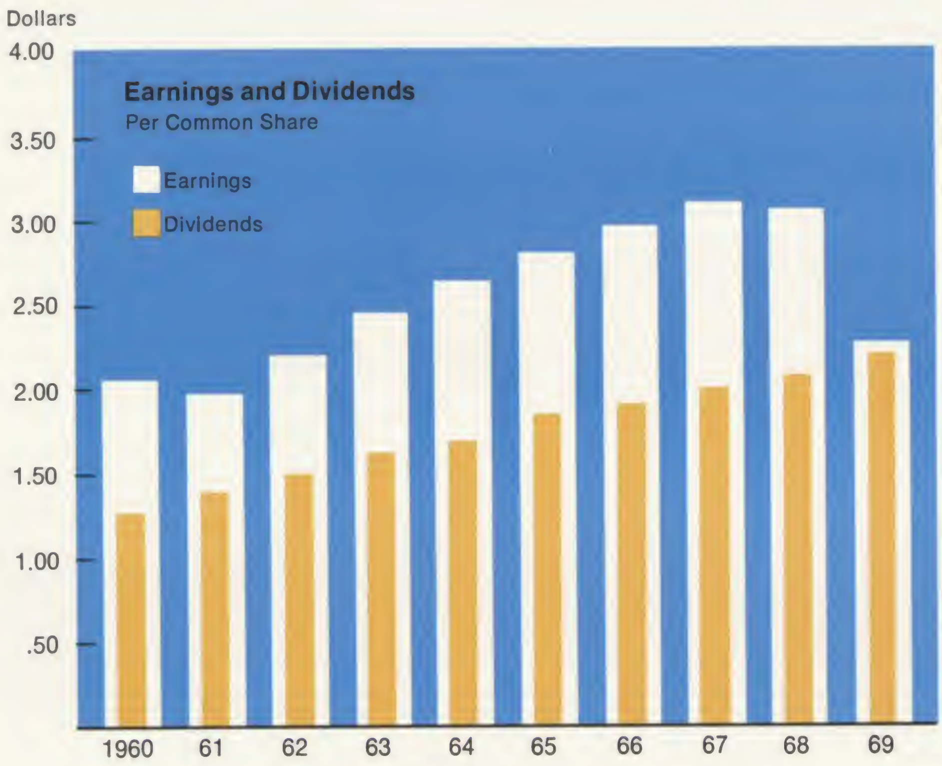
The Company continues to allocate substantial resources for research and development. This total outlay, $6.9 million in 1969 for research into nutritional improvements, development of new varieties, and packaging innovations, contributes to the flow of improved and diverse products in the market place.

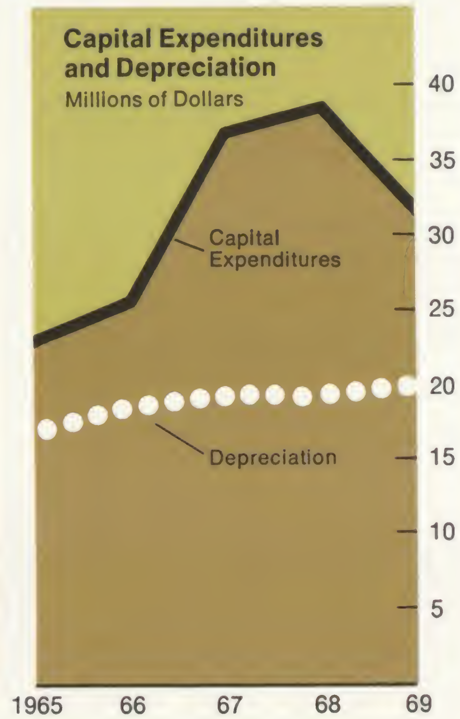
The Company is expanding its data-processing facilities and scientific management capabilities around the world. In the international area, new advanced data-processing equipment was installed in Canada, Mexico, Denmark, Germany and Spain and will contribute to operational efficiencies and greater management effectiveness.

In June 1969, Christie, Brown and Company, Ltd., our Canadian affiliate, formed an association with Reid Milling, Ltd., a modern flour milling operation near Toronto, Ontario. This association will assure our Canadian companies of a steady flow of a major raw material ingredient without disrupting the continuing ability of Reid Milling to serve the Canadian baking industry.

The Company continues to pursue its expansion program overseas. Two pending new associations were announced during the year. They were with XOX Biskuitfabrik, GmbH, a leading West German biscuit firm, and a joint venture in Japan, with Yamazaki Baking Co., Ltd. and Nichimen Co.

Cash flow generated by operations continued in excess of $50 million and, combined with the proceeds from recent debenture offerings, provides the financing for our investment and diversification program.





FINANCIAL REVIEW

Sales and Earnings

For the first time in a decade, NABISCO's sales failed to set record levels. An eight-week strike, which closed most major U.S. production facilities in September and October, significantly affected operations. Sales for 1969 were $726.2 million, compared with $770.1 million in 1968. For the first eight months of the year, sales exceeded last year's levels.

Earnings for the year were also adversely affected. Net income for the year of $30.8 million or $2.27 per share was down from $41.8 million or $3.07 per share recorded in 1968. The major impact of the profit decline was sustained in the latter part of the year when merchandise shortages curtailed operations. As we move into 1970, NABISCO's plants are running at record levels to rebuild balanced inventories and store stocks.

In addition, NABISCO's ambitious policy to expand foreign operations resulted in continued pressure on earnings from this area. Additional costs and expenses related to production start-up, new distribution facilities and market development in certain areas were incurred.

Dividends

Cash dividends declared were $29.9 million or $2.20 per share, compared with $28.5 million or $2.10 per share in 1968. In 1969, dividends increased for the eleventh consecutive year. This marked the seventy-first year of uninterrupted quarterly dividends.

How each Worldwide NABISCO Sales Dollar was used.

NOTES TO FINANCIAL STATEMENTS

Plant and Equipment Expenditures and Depreciation

Capital expenditures of $31.9 million continued at high levels in 1969. Depreciation of plant and equipment totaled $20,612,000 in 1969, compared with $19,935,000 in 1968. For financial reporting purposes, the Company and its subsidiaries provide depreciation on buildings, machinery and equipment on a straight-line basis, except for certain domestic assets acquired primarily between 1954 and 1965, for which depreciation is provided on an accelerated basis. Accelerated depreciation methods are generally used for tax purposes. Deferred income taxes have been provided on the excess of tax depreciation over book depreciation. The Company continues to amortize the balance resulting from the seven per cent investment credit over the lives of the qualifying assets. The U.S. Congress rescinded the investment credit, retroactive to April 18, 1969. This did not have a material effect on earnings.

Other Assets at December 31, 1969 include $16,919,000 of investments in unconsolidated companies, carried at cost plus equity in undistributed net earnings since acquisition. The Company's equity in the underlying tangible net assets is $7,775,000. The balance in other assets, $12,144,000, consists principally of prepaid expenses, deferred charges, and certain investments and advances.

Long-Term Debt

In 1967 and 1968, the Company, through its wholly owned finance subsidiary, Nabisco International Finance Company, issued debentures in overseas capital markets to finance international expansion. In 1967, $20,000,000 of 6½ per cent Guaranteed Debentures were issued and are subject to redemption through a sinking fund beginning in 1970 at an annual rate of $1,500,000. All or any part of these debentures may be redeemed at that Company's option beginning in 1972 at prices

decreasing gradually from 103 per cent of the principal amount to 100 per cent in 1979 and thereafter.

In 1968, $30,000,000 of 5¼ per cent Guaranteed Convertible Debentures were issued. During the past year, $100,000 principal amount of these debentures were converted into 1,980 shares of Nabisco's common stock. The remaining amount outstanding is convertible into 592,080 shares of common stock and will be subject to redemption through a sinking fund beginning in 1979. All or any part of these debentures may be redeemed at Nabisco International Finance Company's option beginning in 1973 at prices decreasing gradually from 104¾ per cent of the principal amount to 100 per cent in 1987 and thereafter.

At any time after April 1, 1972, the 4¾ per cent Subordinated Debentures, issued to retire preferred shares in 1962, may be redeemed at the Company's option at prices decreasing gradually from 104 per cent of the principal amount in April 1972 to 100 per cent in April 1985 and thereafter.

Pension Expense

The Company has voluntary non-contributory pension plans, which have been approved by the shareholders, for employees not covered by union-industry pension plans. Certain subsidiaries have similar plans. The related pension expense, which is funded currently, is comprised of a provision for current service costs and amortization of certain unfunded prior-service liabilities. In addition, the union-industry pension plans require contributions as defined in the union agreements. Total pension costs amounted to $9,101,000 in 1969 and $8,937,000 in 1968.

Stock Option Plans

At the annual meeting in April 1969, the shareholders approved a new stock option plan for officers and key employees of the Company to replace a previous plan which expired in 1969. The new plan authorizes the granting of options to officers and other key employees to purchase shares of the Company's common stock at not less than 100 per cent of the fair market value of the stock on the date the options are granted. No more than 250,000 shares may be delivered under both plans combined.

On January 1, 1969, there were options outstanding to purchase 206,200 shares. Options for the purchase of 41,740 shares at $50.44 were granted in 1969. No options were exercised during 1969. Options for 89,200 shares expired or were cancelled during 1969 with the result that at December 31, 1969 there were options outstanding to purchase 158,740 shares at prices ranging from $44.31 to $65.25. Options covering 50,980 shares were exercisable at December 31, 1969.

Commitments, principally in regard to plant and equipment, approximated $11 million at year end. In addition, annual rentals on properties operated by the Company under leases expiring from 1973 to 1983 aggregate approximately $4.5 million.

CONSOLIDATED FOREIGN SUBSIDIARIES are included in the financial statements for 1969 at the following U.S. dollar amounts (translated at appropriate rates of exchange): working capital, $15,678,000; net plant assets, $75,274,000; net sales, $184,164,000; and net income after minority interest, $2,578,000.

The Company consolidates all its subsidiaries except for its interests in Galletas Artiach, S.A., Spain and B. Sprengel & Co., Germany.

NET SALES BY QUARTERS
(Millions of Dollars)

Quarter Ended	1969	1968
March 31	**$192.0**	$191.7
June 30	**193.3**	184.2
September 30	**185.2**	188.9
December 31	**155.7**	205.3
	$726.2	$770.1

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

ASSETS

	December 31, 1969	December 31, 1968
Current Assets		
Cash	$ 16,317,000	$ 17,725,000
Short-term investments, at cost which approximates market	66,910,000	82,362,000
Accounts receivable	47,214,000	49,989,000
Inventories, at the lower of average cost or market	88,837,000	82,329,000
Total current assets	219,278,000	232,405,000
Property, Plant and Equipment, at cost		
Land	7,972,000	8,163,000
Buildings	119,616,000	114,173,000
Machinery and equipment	288,971,000	273,961,000
	416,559,000	396,297,000
Less accumulated depreciation	219,068,000	207,118,000
	197,491,000	189,179,000
Other assets	29,063,000	22,471,000
Excess of investment in consolidated subsidiaries over net assets	28,233,000	27,521,000
	$474,065,000	$471,576,000

(Financial statements should be read in conjunction with the notes to financial statements on pages 14 and 15.)

LIABILITIES

	December 31, 1969	December 31, 1968
Current Liabilities		
Accounts payable	$ 44,066,000	$ 36,848,000
Accrued liabilities	39,910,000	38,282,000
Common dividend payable	7,470,000	7,131,000
Income taxes	10,061,000	16,022,000
Total current liabilities	101,507,000	98,283,000
Long-Term Debt		
6½% Guaranteed Debentures, due October 1, 1982	18,400,000	20,000,000
4¾% Subordinated Debentures, due April 1, 1987	31,930,000	33,308,000
5¼% Guaranteed Convertible Debentures, due March 1, 1988	29,900,000	30,000,000
	80,230,000	83,308,000
Deferred income taxes and investment credit	18,854,000	17,791,000
Minority interest in consolidated subsidiaries	2,963,000	2,739,000

SHAREHOLDERS' EQUITY

Capital stock, common—par value $5 Shares authorized 24,000,000, issued 13,691,922	68,460,000	68,460,000
Additional paid-in capital	923,000	923,000
Retained earnings	205,480,000	204,519,000
Less Treasury stock, at cost—90,052 shares in 1969	(4,352,000)	(4,447,000)
	270,511,000	269,455,000
	$474,065,000	$471,576,000

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME AND RETAINED EARNINGS

	1969	1968
Net Sales	$726,227,000	$770,084,000
Cost of sales	479,312,000	497,444,000
Selling, general and administrative expenses	179,385,000	182,105,000
	658,697,000	679,549,000
Income from Operations	67,530,000	90,535,000
Interest and miscellaneous income, net	5,046,000	3,841,000
Interest on long-term debt	(4,583,000)	(4,349,000)
Income before Income Taxes	67,993,000	90,027,000
Income taxes (deferred: 1969, $1,063,000; 1968, $2,777,000)	37,154,000	48,271,000
Net Income	30,839,000	41,756,000
Retained earnings January 1	204,519,000	191,288,000
	235,358,000	233,044,000
Common dividends declared, $2.20 per share in 1969, $2.10 per share in 1968	29,878,000	28,525,000
Retained earnings December 31	$205,480,000	$204,519,000
Net Income per share of common stock	$2.27	$3.07

(Financial statements should be read in conjunction with the notes to financial statements on pages 14 and 15.)

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1969	1968
Source		
Net income	$ 30,839,000	$ 41,756,000
Depreciation	20,612,000	19,935,000
Deferred income taxes and investment credit	1,063,000	2,777,000
Proceeds from sale of debentures	—	29,250,000
Disposals of property, plant and equipment, net	4,308,000	10,120,000
	56,822,000	103,838,000
Application		
Plant and equipment additions	31,902,000	38,194,000
Dividends declared	29,878,000	28,525,000
Increase in "Other assets"	6,592,000	1,428,000
Repurchases and current installment of long-term debt	2,978,000	811,000
Miscellaneous, net	1,823,000	(90,000)
	73,173,000	68,868,000
Increase (decrease) in working capital	$ (16,351,000)	$ 34,970,000

(Financial statements should be read in conjunction with the notes to financial statements on pages 14 and 15.)

REPORT OF AUDITORS

TO THE SHAREHOLDERS OF NATIONAL BISCUIT COMPANY:

We have examined the balance sheet of National Biscuit Company and consolidated subsidiaries as of December 31, 1969, the related statement of income and retained earnings and the statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished reports of other public accountants upon their examinations of the financial statements of certain foreign subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based upon such reports. We made a similar examination of the financial statements for the year 1968 and have previously reported thereon.

In our opinion, the aforementioned financial statements present fairly the financial position of National Biscuit Company and consolidated subsidiaries at December 31, 1969 and 1968, and the results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

February 6, 1970
2 Broadway
New York, New York 10004

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

TEN YEAR FINANCIAL SUMMARY

Dollars in Millions (except per share figures)

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Net sales	$726.2	$770.1	$763.6	$719.6	$675.6	$607.5	$578.4	$547.5	$486.3	$463.6
Income before income taxes	68.0	90.0	84.0	78.0	74.6	74.3	70.7	63.8	59.2	60.8
Income taxes	37.2	48.2	41.7	37.2	36.2	37.8	36.8	33.0	30.8	31.5
Net income	30.8	41.8	42.3	40.8	38.4	36.5	33.9	30.8	28.4	29.3
Earnings retained	.9	13.3	15.1	14.9	13.8	13.2	12.2	10.2	7.8	10.4
Net income per common share	2.27	3.07	3.11	2.99	2.80	2.66	2.47	2.22	1.98	2.04
Dividends declared										
Preferred stock	—	—	—	—	—	—	—	.4	1.7	1.7
Common stock	29.9	28.5	27.2	25.9	24.6	23.3	21.7	20.2	18.9	17.2
Per common share	2.20	2.10	2.00	1.90	1.80	1.70	1.60	1.50	1.40	1.25
Current assets	219.3	232.4	189.0	179.9	182.9	166.9	152.8	135.1	129.6	129.7
Current liabilities	101.5	98.3	89.8	81.8	84.8	70.1	65.8	62.8	52.4	53.9
Working capital	117.8	134.1	99.2	98.1	98.1	96.8	87.0	72.3	77.2	75.8
Plant and equipment, net	197.5	189.2	180.5	159.3	152.8	132.4	132.1	136.5	125.3	121.4
Plant and equipment expenditures	31.9	38.2	37.5	25.6	23.1	14.7	11.8	24.0	16.8	11.5
Cost of employees' services	243.2	241.4	238.0	222.1	208.5	189.2	180.3	172.5	156.8	148.9
Provision for all taxes (except social security)	44.1	56.4	48.9	45.4	43.9	44.2	43.2	39.9	36.1	36.7
Book value of common stock	270.5	269.5	256.2	241.5	230.7	216.9	203.7	191.5	195.7	187.8
Book value per common share	19.89	19.81	18.84	17.75	16.85	15.84	14.88	13.99	14.50	13.92
Number of shareholders	76,300	78,200	78,000	77,600	78,500	80,000	80,500	81,400	83,200	77,300

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PRINCIPAL UNITED STATES PLANTS

BISCUIT AND CRACKER BAKERIES
Atlanta, Georgia
Buena Park, California
Chicago, Illinois
Denver, Colorado
Fair Lawn, New Jersey
Houston, Texas
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Portland, Oregon
St. Louis, Missouri

CEREAL PLANTS
Minneapolis, Minnesota
Naperville, Illinois
Niagara Falls, New York
Oakland, California

FLOUR MILLS
Carthage, Missouri
Cheney, Washington
Toledo, Ohio

SPECIALTY PLANTS
Beacon, New York ..... (printing plant)
Buffalo, New York: .... (pet foods)
Cambridge, Massachusetts ... (candy)
Dayton, Ohio .... (ice cream cones)
Evanston, Illinois ...... (machine shop)
Fair Lawn, New Jersey (research and development)
Los Angeles, California ...... (candy)
Mansfield, Massachusetts .... (candy)
Marseilles, Illinois (paperboard, printing)
Woodbury, Georgia (dates and pimientos)
Wrightstown, Wisconsin (cheese spreads)
York, Pennsylvania .... (pretzels)

INTERNATIONAL OPERATIONS

AUSTRALIA:
Nabisco Pty. Limited

CANADA:
Christie, Brown & Company, Limited
Reid Milling Limited
Nabisco Limited:
  Christie's Bread Division
  Nabisco Foods Division

DENMARK:
Oxford Biscuit Factory Ltd.

ENGLAND:
Nabisco Limited:
  Nabisco Foods Division
  Nabisco Frears Biscuits Division

FRANCE:
Biscuits Belin, S.A.
Biscuits Gondolo, S.A.

GERMANY:
B. Sprengel & Co.
Harry Trueller GmbH

ITALY:
Saiwa, S.p.A.

MEXICO:
Nabisco-Famosa, S.A.

NEW ZEALAND:
Griffin & Sons Limited

NICARAGUA:
Industrias Nabisco Cristal, S.A.

PUERTO RICO:
Arbona Hermanos Division

SPAIN:
Galletas Artiach, S.A.

VENEZUELA:
Nabisco-La Favorita, C.A.

NABISCO